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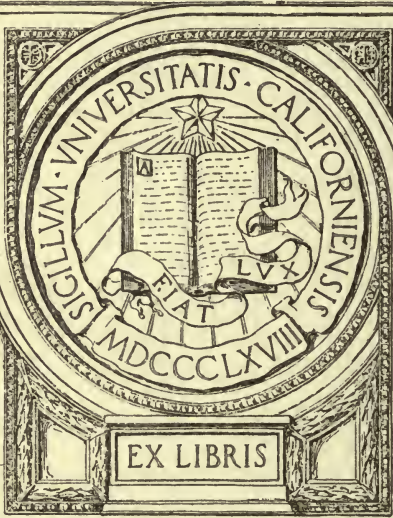
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Departmental Costkeeping for Small Businesses.

BY

H. JULIUS LUNT, A.C.A.

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DEPARTMENTAL COSTKEEPING FOR SMALL BUSINESSES.

By H. JULIUS LUNT, A.C.A.

THE necessity for correct records of manufacturing processes will be felt in the future to a much more intense degree than ever in the past, and the importance of reliable data, easily and correctly compiled, always up to date and readily available, will be found of immense service in businesses of every kind.

It is inevitable that minor modifications will be required in any cut-and-dried plan to suit the peculiarities of any particular business, but when the general lines are understood, the necessary guidance to success is obtained.

In the plan now submitted an attempt has been made to show how the work can be arranged to produce useful results with as little complication as possible, and at the same time the figures are available week by week, and results can be watched continually and can be checked with the periodical stocktaking, and when special reliance is to be placed upon them.

Costing records are in some cases desired for permanent historical survey of results, in other cases for providing a basis for future work, but in this case the scheme provides a running outline of present work from which deductions can be at once made, and on which necessary action can be immediately taken.

The most elaborate system is of little use when its results are only obtained after the mischief is

done. A system which shows the tendencies of the business, the way the current is flowing, will give a far greater return in usefulness for the time spent on its working out.

The system here outlined is excellently adapted for businesses when the goods manufactured are being readily disposed of as they are made, without any necessity for accumulating stock for season trade, and without the delay which is inevitable in many businesses before the work done assumes the finished state.

To meet these cases, however, special provision is made.

Part I.—The Weekly Cost Sheet.

Part II.—The Cost Sheet Summaries.

Part III.—The Cost Ledger.

PART I.—THE WEEKLY COST SHEET.

The Departments.

It is first of all necessary to decide upon the classifications into which the business is to be divided for the purpose of grouping the departments—either according to (a) the class of articles turned out, (b) the kind of material used, (c) the nature of the operations, and so on.

Each of these departments will then be looked upon in the Cost Accounts as a separate business, trading with the other departments and maintaining a clear division of material and labour.

The purchases records will require to allocate materials purchased to one or other of these departmental accounts accordingly.

Where materials are bought for several departments they will require to be charged up to the department chiefly concerned, and the other departments will draw supplies from that one.

The Purchases Invoice Book will require to be analysed accordingly.

The sales must be classified also according to the department concerned, and the Sales Day Book (and Returns Inwards Book) will require similar analysis columns to record the output.

Form 2. SALES DAY BOOK.

Date	Name	No.	Fo.	Total £ s d	Dept. A. £ s d	Dept. B. £ s d	Dept. C. £ s d

The clerks responsible for these analyses must be supplied by the cost clerk with exact lists of items allocated to each department. A weekly summary of the sales in the following form should be regularly prepared.

Form 3. SALES SUMMARY.

Week ending.....

		Total to date for this Quarter	Average	Same week last Year	Total to date last Year	Average
	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
Dept. A.						
Dept. B.						
Dept. C.						

Increase or decrease	£	£	£
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Between these two records, viz. purchases and sales, which are fairly readily obtainable, lie the following classes of transactions, each of which must be dealt with in its appropriate manner:—

(I) Supplies of material from stock-room to the various departments.

(2) Transfer of material from one department to another.

(3) Wages paid in different departments.

(4) Packing labels and containers, &c., also assignable to a particular department.

(5) General expenses applying to the business as a whole.

Raw Material.

Raw material in bulk is always to be kept in store-rooms under the charge of a storekeeper who is responsible for its correct use and for furnishing correct records of its use, each department having the materials assigned to it, as they are charged up to it in the Invoice Book. It may be sufficient to warehouse such materials under one stock-keeper, or circumstances may make it more convenient to have entirely separate stock-rooms for each department, in close touch with that department.

The Supply Tickets.

Form 4. SUPPLY REQUISITION TICKET

for Raw Material, &c., from Stores in Stock-room.

To Stock-keeper, ...

Please Supply :—

Signed.....

A supply requisition must be handed in to the storekeeper for all supplies obtained from him: to be initialled by head of department drawing supplies, and counter-initialled by person actually receiving from the stock-keeper. These records form the bases of a weekly summary of the material used in each department. They are also to be entered up into the Stock Book, to the credit of the stock of material in question. (See Form 14.)

In case of goods purchased particularly for one department and taken into use in that department where immediate delivery is obtained, it is important to observe that the correct requisitioning by means of a supply ticket is carried out.

Transfers.

Form 5. MATERIALS TRANSFER TICKET
for Material, &c., from one Department to another.

From.....Department

To Department

Besides the supplies of the chief stocks from the stock-keeper there will usually be transfers of material from one department to another, either because they are in a prepared state or because that department holds the main stock, or for some similar reason, and transfer tickets must be filled up and handed in to the department delivering the goods. These should be of a different colour from the supply requisitions to facilitate classification.

They may be numbered and taken from duplicate books with advantage. They should be filled in with full detail.

The cost clerk should collect these requisitions and transfer tickets daily, and classify them ready for summarising at the end of the week.

The transfers require recording in an analysis book called the Materials Transfer Book.

A separate section is devoted to each department for goods *received* into that department, with columns showing the department to be credited in respect of each item.

From these records a separate Cost Sheet for each department can be prepared.

Form 7. COST SHEET BOOK.
Department A

Week ending.....

Details of Supplies	Quantity	Value
Total Supplies		
Transfers from Departments		
Transfers to Departments		
Net Consumption		
Amount Forward		
Total		
Containers— Amount Forward		
Total		
Wages— Amount Forward		
Total		
Production— Amount Forward		
Total		

Compilation of the Cost Sheet.

(a) Summarise material received from stock-keeper.

(b) *Add* total of materials transferred into the department.

(c) *Subtract* total of transfer book credits—materials sent out to other departments.

The weight or quantity should be totalled as well as the value, and the totals should be carried forward from week to week.

Wages.

The Wages Analysis Book must provide a classification of wages paid in different departments, showing separately wages of staff—not belonging to any one section, such as engineers (in a factory), general supervision, stock-keeper, &c.

The wages should be recorded on the Cost Sheet and totalled from week to week for comparison purposes.

Form 8.

WAGES ANALYSIS.

Date	Dept. A			Dept. B			Dept. C		
	£	s	d	£	s	d	£	s	d

Output.

Records of production should be compiled from delivery tickets handed in along with all finished goods, initialled or countersigned by department managers delivering and receiving respectively, or their deputies.

Form 9.**DELIVERY TICKET (FINISHED STOCK).**

From Dept.....

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Form 10.**PRODUCTION SHEET.**

Week ending.....

Details

Quantity

Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	Total	@	Value

These records must be summarised daily as the work proceeds and totalled at each week-end, the quantities either by count, weight, or measurement in each section being extracted.

This total being recorded on each appropriate Cost Sheet, and totalled from week to week, gives a most valuable guide to the working, viz. :—

Average cost of material per 1,000, per cwt., per yard, &c., produced.

Average cost of wages per 1,000, per cwt., per yard, &c., produced.

From these records a summary of output should be made in alphabetical form—preferably in a loose-leaf book—so that production of any article from week to week can be traced.

It is naturally of considerable importance to have a correct grouping of work, so that similar articles are together in the departments, and dissimilar articles separated.

Form 11. PRODUCTION RECORD.

Article.....

Week ending	Quantity

Wrappings—Packing Labels, Containers, &c.

The readiest way of compiling this cost is as follows :—

The cost of wrappings for each article must be ascertained, and a price record kept of same. From the totals shown on the Production Sheet (Form 10) the cost of Containers, &c., to correspond can be readily calculated.

Alternatively, the requisitions for wrappings supplied from stock must be charged up similarly to the goods.

PART II.—THE COST SHEET SUMMARIES.

THE next step is the preparation of a record showing the comparative expenditure upon materials, wages, &c., and the product resulting.

Form 12. COST SHEET SUMMARY.

Week ending.....

	Material			Containers			Wages			Total			Net Sales		
	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d
Dept. A															
Amount forward															
Total															
Dept. B															
Amount forward															
Total															
Dept. C															
Amount forward															
Total															
Total for Week Previous Total															
Grand Total															

In many cases the value of production can be taken from Sales' Day Book analysis, but where the stock is not regularly disposed of as it is manufactured—stock of finished goods fluctuating violently in consequence—the Production Sheets must be priced out into values, and these used for the credit of the Cost Sheet summary. The circumstances of each business must determine which method should be adopted, but the former has the advantage of simplicity.

From the balance between the total of Materials, Wages, and Containers, and the Net Sales, the gross profit in each department can be obtained.

Now, the percentage of expenses of the business is known from previous experience. This should be checked by examination of the current expenses as shown later (Form 15).

Allot to each department its percentage of expense and the balance shows approximate net profit.

Form 13.

COST DEPARTMENT WEEKLY REPORT.

Department A				Total to date		
Total Consumption—				£	s	d
Material .. £						
Containers £						
Wages .. £ _____ £						
Cr. Net Sales .. £						
Balance Gross Profit £						
Expenses £						
Net Profit £						

DEPARTMENTAL PROFITS.

	Gross			%	Expense			Net			Total		
	£	s	d		£	s	d	£	s	d	£	s	d
Dept. A. ..													
Dept. B. ..													
Dept. C. ..													

It is necessary sometimes to allow a heavier percentage of expense to one department than to another. The simplest plan is to charge expenses according to percentage on net sales, but in some cases it is necessary to charge a percentage on amount of wages paid, or partly according to the amount of wages and partly according to the value of materials used. The different methods are required in order to be fair as between one kind of work and another, and all these methods

are equally correct under different circumstances. If the value of the materials differs widely in different departments, or if one department expends considerable labour upon its products, compared with another where little labour is required, the division of expenses must be based—partly, at any rate—on the wages paid. But the basis having been settled, it is important to observe that the total of the amounts charged for expenses actually covers the expenses being incurred.

Partially Made Goods.

An objection to this method lies in the fact that fluctuations of stock of partially made goods are not accounted for ; that is to say, that it is assumed that the values of such goods will remain approximately at the same level. This point must be borne in mind, and unusual fluctuations in such stock at the time of preparing the account when compared with the commencement of the period under review must be taken into consideration. This can be done best by adding an increase of partially made stock to the net sales, or deducting a decrease. In most cases, however, the comparison of net sales with consumption of raw material can be sufficiently checked in respect of stock fluctuation by a periodical stocktaking of the partly made and finished goods—the fluctuation being accounted for to credit or debit of the department concerned.

Prices and Stock-keeping.

Form 14.

Dr.

COST DEPARTMENT STOCK RECORD.

PURCHASES.

Date	No.	Name	Mark	Quantity	Cwts.	Qrs.	Lbs.	Price	£	s	d

A Stock Record in the form shown above gives an essential link between the cost clerk and

(1) The purchases department.

(2) The stock-keeper.

From this record, which the cost clerk must compile from the invoices, the prices of the materials must be calculated.

To the credit side are entered the total quantities issued weekly, and the balance should be agreed weekly with a weekly stock-sheet of materials on hand obtained from the stock-keeper.

PART III.—THE COST LEDGER—THE COST JOURNAL.

IN addition to the weekly Cost Sheet and Summary a record in the form of a Ledger Account completes the cost system, and can be prepared from the same original dockets.

A Ledger Account must be opened in the Cost Ledger for each department, and also one for Goods and one for Wages.

Each Department Account must be debited with Stock on hand, from stock inventory—credited Goods Account,

Purchases, goods and containers, from invoice analysis—credited Goods Account,

Wages from wages analysis—credited Wages Account,

by means of periodical entries in the Cost Journal

The Materials Transfer Summary must be journalised and posted weekly, the respective departments being credited and debited in respect of the materials which have passed between them.

At the following stocktaking the total sales and stock on hand will be credited to each department, the balance showing the gross profit.

This will agree with the gross profit shown in the Cost Department Reports (subject to the latter being adjusted in respect of fluctuations in the amounts of stock of partly manufactured and finished goods), and the two records serve to check one another in this way.

The Cost Ledger record must agree with the general bookkeeping, because the credit on Goods and Wages Accounts in the costs records for amount charged to the departments equals the debit corresponding in the general accounts.

It will be observed that the same division into departments must apply in all sections of the bookkeeping—

Purchases,
Wages,
Sales,
Stocktaking,

and it will be important to observe that the correct division is continually maintained.

It will be noted that transfers from one department to another are journalised, but not supplies of stock from stock-room to factory. However, in cases where supplies are made to a department of material originally allocated to another department, a journal entry will be required, and special note of such transaction must be made at the time when details are entered up in the Costs Sheets from the Supply Tickets.

Expenses.

Form 15.

EXPENSES SUMMARY.

	January			February			March			April			&c.		
	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d
Wages															
Less Wages															
Charged in															
Deptl. A/cs.															
Coal															
Carriage ..															
Commissions ..															
Advertising ..															
Discounts ..															
Office Salaries ..															
General Expenses															
&c.															

A monthly Expenses Summary should be made up from the Nominal Ledger balance (allowing for outstanding items) to check the percentage of expenses for the current period as compared with past experience, and to ensure that the full total of expenses is being allowed for in the Cost Sheet Summaries.

A monthly balance of the Nominal Ledger is also useful for ensuring that the postings, &c., are correct and up to date. For this purpose, of course, sectional accounts for Purchase Ledger and Sales Ledger are essential.

WORKS INSTRUCTIONS.

Stock Room to Works or Forwarding Department.

Materials supplied from stores must be signed for on "Supply Requisition Tickets."

One Department to Another Department.

Goods partly prepared (or materials) from one department to another must be signed for on "Transfer Tickets."

Department to Finished Stock or Forwarding Department.

Finished goods must be signed for on "Delivery Tickets."

COST DEPARTMENT ENTRIES.

Supply Tickets to charge up to Cost Sheets of respective departments.

Supply Tickets to enter up in Stock Book.

Transfer Tickets to analyse in Transfer Book.

Totals of Summaries in Transfer Book to enter in Cost Journal to debit and credit of respective accounts in Cost Ledger.

Same to debit and credit of respective Cost Sheets.

Delivery Notes to summarise on Production Sheets. Wrappings to calculate from Production Sheet totals and enter Cost Sheet Summary.

Complete the Cost Sheets by bringing forward weekly totals recording total consumption of material, containers and wages, and production.

Totals of consumption and wages from Cost Sheets to Cost Sheet Summary.

Wages Analysis to charge to respective departments—in Cost Journal—post to Cost Ledger.

Purchase Invoice Book Analysis to charge to respective departments in Cost Journal—post in Cost Ledger.

Purchase invoices to enter in Stock Book.

List of Forms and Books from which Records are Obtained.

Forms.

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